

**ORGANIZATIONAL FACTORS CONTRIBUTING TO SERVICE
RECOVERY PERFORMANCE IN INDONESIAN
ISLAMIC BANKS**

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**ORGANIZATIONAL FACTORS CONTRIBUTING TO SERVICE
RECOVERY PERFORMANCE IN INDONESIAN
ISLAMIC BANKS**

By

ZAINUL BAHRI DALIMUNTHE

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DEDICATION

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**FAKTOR-FAKTOR ORGANISASI YANG MENYUMBANG KEPADA
PRESTASI PEMULIHAN PERKHIDMATAN DI
BANK-BANK ISLAM DI INDONESIA**

ABSTRAK

Kajian ini mendalami bagaimana faktor-faktor organisasi menyumbang kepada prestasi pemulihan perkhidmatan di bank-bank Islam di Indonesia dengan menggunakan komitmen pengurusan terhadap kualiti perkhidmatan dan kemampuan pekerja berkongsi ilmu sebagai peramal. Peranan dari sokongan yang diberikan oleh organisasi sebagai sebagai penyederhana pengaruh di antara kedua peramal tersebut dan prestasi pemulihan perkhidmatan dalam bank-bank Islam di Indonesia juga dikaji. Sampel kajian ini adalah pekerja perkhidmatan bahagian depan dalam bank-bank Islam di Indonesia, dan data dikumpul melalui soal selidik secara pos. Hasil kajian ini mendapati bahawa dua dimensi daripada komitmen pengurusan terhadap kualiti perkhidmatan (latihan dan ganjaran) adalah positif dan secara signifikan mempengaruhi kepada prestasi pemulihan perkhidmatan. Pemberian kuasa tidak signifikan mempengaruhi kepada prestasi pemulihan perkhidmatan. Hasil kajian ini juga mendapati bahawa semua dimensi daripada kemampuan pekerja berkongsi ilmu adalah positif dan secara signifikan mempengaruhi kepada prestasi pemulihan perkhidmatan. Kajian ini menunjukkan bahawa sokongan yang diberikan oleh organisasi secara signifikannya tidak menyederhanakan pengaruh di antara dimensi-dimensi daripada dua peramal kepada prestasi pemulihan perkhidmatan, kecuali sokongan yang diberikan oleh organisasi secara signifikan menyederhanakan pengaruh di antara satu dimensi daripada kemampuan pekerja berkongsi ilmu (tacit knowledge-sharing capabilities) kepada prestasi pemulihan perkhidmatan. Tiada pemboleh ubah kawalan yang secara signifikan mempengaruhi kepada prestasi pemulihan perkhidmatan kecuali kelayakan pendidikan. Kajian ini juga menyajikan

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ORGANIZATIONAL FACTORS CONTRIBUTING TO SERVICE RECOVERY PERFORMANCE IN INDONESIAN ISLAMIC BANKS

ABSTRACT

This study investigated the organizational factors contributing to service recovery performance in Indonesian Islamic Banks by using management commitment to service quality and employee knowledge sharing capabilities as predictors. The role of perceived organizational support as a moderator between the two above mentioned predictors and the service recovery performance in Indonesian Islamic Banks was also investigated. The sample of this study was frontline employees of Indonesian Islamic Banks, and data were collected through mail survey using questionnaires. The results of this study found that two dimensions of management commitment to service quality (training and rewards) positively and significantly influenced service recovery performance of frontline employee. Empowerment did not significantly influence service recovery performance of frontline employee. The present study also found that all dimensions of employee knowledge sharing capabilities positively and significantly influenced the service recovery performance of frontline employee. The results of this study show that perceived organizational support did not significantly moderate the influence of dimensions of two predictors on service recovery performance. However, perceived organizational support moderate the influence of tacit knowledge-sharing capabilities on service recovery performance of frontline employee. None of the control variables significantly influence statistically the service recovery performance of frontline employee except educational qualifications. The study also provides discussion on the findings as well as limitations, theoretical and practical implications of the study, and suggestions for future research.

CHAPTER 1

INTRODUCTION

1.0 Introduction

This study investigated the service recovery performance of frontline employees of Indonesian Islamic Banks by using management commitment to service quality and employee knowledge-sharing capabilities as predictors. The role of perceived organizational support as a moderator between the two predictors mentioned and the service recovery performance of frontline employees is also investigated.

The purpose of this chapter is to provide an overview of the study and its organization. The chapter began with a discussion of background of the study, research problem, research questions, and research objectives. This is followed by significance of the study, scope of the study, key terms in the study, and organization of the thesis.

1.1 Background of the Study

In most countries, aside from the conventional banking or non-Islamic Banking there is the Islamic Banking. Islamic Banking is similar to non-Islamic Banking such that both offer similar services and play a major role in the economic development of their societies for financial development and prosperity (Brown, 2003; Lin & Mei, 2006; Nasser & Mutinho, 1997). The term conventional banking refers to an interest-based banking (Ibrahim, 2003). However, Islamic banking is based on Islamic law, thus making Islamic Banking different from conventional banking system in several ways. Despite, the uniqueness of Islamic Banking services being based on Islamic

principles, the Islamic Banks serve the global market for both Muslims and non-Muslims as its consumers (Salamon, 2004). Therefore, the banking systems both Islamic Banking and conventional banking are vital to the economy of a country and touch the lives of millions people.

Indonesia is the most populous Moslem country in the world. In 2009 the total population of permanent resident in Indonesia was estimated 231 million and 88% are Moslem. The banking sector's Indonesia contributed approximately 2.4% to Gross Domestic Product (GDP) in the year of 2009 (Indonesian Central Bureau of Statistics, 2010). Indonesia has recognized the existence of a dual banking system, that is a system where the conventional side by side with Islamic Banking system grow together to serve the economy (Ibrahim, 2003). There are three types of Islamic Banking in Indonesia, namely, (1) Islamic Commercial Banks governed by Islamic law or *shariah* Islamiah; (2) Islamic Banking Units or Islamic Business Units are the subsidiary operation units within conventional banks which implemented *shariah*-based principles in their business portfolio as well; and (3) Islamic Rural Banks or *Shariah* People Credit Banks are extremely small sized banks compared to regular commercial banks (Ibrahim, 2003; Central Bank of Indonesia, 2009).

The development of modern Islamic Banking in Indonesia was formally initiated in the year 1992. Since the year 2000, the growth of Islamic banks in Indonesia has been phenomenal. In the year 2000 the number of Islamic banks increased from only two Islamic Commercial Banks to three Islamic Commercial Banks with 132 total branch offices and sub branch offices, and from three Islamic Banking Units to 15 Islamic Banking Units with 74 total branch offices and sub branch offices, and 88 *Shariah* People Credit Banks by the end of 2004 (Central Bank of Indonesia, 2004). In 2009, there were six Islamic Commercial Banks with

820 number of offices and 10,348 number of employees, 21 Islamic Bank Units or Islamic Business Units with 199 number of offices and 1,932 number of employees, and the Islamic Rural Banks were 225 units with a total of employees were approximately 2,581 (Central Bank of Indonesia, 2009).

According to Masdek, Aziz, and Awang (2011) that findings from a stream of research on service recovery (e.g., McCollough, Berry, & Yadav, 2000; Smith, Bolton, & Wagner, 1999; Tax, Brown, & Chandrashekar, 1998) indicate that customers evaluate service recovery in terms of the outcomes they receive and the nature of the interpersonal treatment they receive during the recovery process. Furthermore, Masdek et al. (2011) emphasized with this information, it is logical to expect frontline employees to have the sufficient interpersonal skills to perform the service recovery well, as expected by the inconvenienced customers.

In other studies, it is uniformly reported that employees who lack the necessary job and interpersonal skills fail to provide a high level of service recovery while dealing with customer complaints (e.g., Afsar, Shahjehan, & Rehman, 2010; Ashill, Carruthers, & Krisjanous, 2005; Boshoff & Allen, 2000; Yavas & Babakus, 2010; Yavas, 1998; Yavas, Karatepe, Avci, & Tekinkus, 2003). The individual efforts necessary to obtain high levels of performance are possible only if employees understand their role and job task, has the knowledge on how to carry out these roles, and is clear of what is expected of them (Masdek et al., 2011). Accordingly, based on the discussion above, employee expertise or human resource expertise are very important to service recovery performance. Employees with high knowledge and skill have better service recovery performance (Masdek et al., 2011; Yusof, 2006).

A case study of Bank Indonesia (Ibrahim, 2003) also showed that the lack of human resource expertise in Islamic Banking as one of major problems associated

with the low level of performance and development of the Indonesian Islamic Banking. It seems that the development of expertise among the Islamic bankers in Indonesia, at best have been undertaken on an ad-hoc basis, relying largely on practical experience rather than any form of formal training (Ibrahim, 2003). The Central Bank of Indonesia agrees with the statement that banking sector human resources are a first line of defense in overcoming the problem above. In response this condition, the Central Bank of Indonesia has put a priority in focusing on Human Resources Development Program in Indonesian Islamic Banks during in the year 2007-2008 (Fadjrijah, 2007).

A recent research on the consumer behavior in choosing Islamic bank in Indonesia was conducted by Yusuf (2006). She surveyed 1325 respondents within six major cities of Indonesia, namely, Medan, Bandung, Semarang, Jakarta and surrounding, Surabaya, and Makassar. The findings suggested that 63% of respondents perceived conventional banks offer better service quality compare to Islamic banks. Yusuf (2006) also found that the majority of respondents used conventional bank. This research found that percentage of respondents who use only Islamic bank is 23%, while respondents who use only conventional bank is about 33%. The rest, a majority of 44% use both Islamic and conventional bank. Further, Yusuf (2006) found that Islamic bank loyalist is only about 20% from the total market, and the rest are conventional bank loyalist. Yusuf's (2006) research also found about 60% respondents put more money in conventional bank rather than Islamic bank. The customers' reason for this behavior is because conventional bank is perceived as more professional and deliver better service quality.

Yusuf's (2006) findings indicate that Indonesian Islamic banks are perceived as having lower performance of service quality compare to Indonesian conventional

banks. But, there is a possibility that consumers will switch to Islamic bank as long as its service quality and return can be improved (Yusuf, 2006). Therefore, service quality is the central issue for Indonesian Islamic Banking. Al-Tamimi and Al-Amiri (2003) stated that service quality is about meeting customers' needs and requirements, and how well the service level delivered matches customer expectations. In banking, it is generally agreed that service quality is a significant issue facing this industry. Raddon (1987) in Al-Tamimi and Al-Amiri (2003) reported that 40% of customers switching financial institutions in the USA did so because of service problems. Allred and Addams (2000) also indicated that 50% of total respondents they surveyed reported that they had stopped using a financial service provider because of poor service performance. Service quality researchers have identified service reliability as being at the heart of consumers' perception of quality service (Berry, Zeithaml, & Parasuraman, 1990).

Based on explanations above, empirical evidence and theoretically shown when a service provider cannot deliver service that meet to the customer's expectation, it means a service failure occurred, and need service recovery efforts (e.g., Alexander, 2002; Bell & Zemke, 1987; Yoo, Shin, & Yang, 2006). Customers switching financial institutions did so because of service problems. Thus, service firms must have service recovery strategies to offset service failures (Boshoff, 1997). Service failures are unavoidable and appear in both the process and the consequence of service delivery and failure in the delivery of service are inevitable and will happen to almost all service organizations (Cengiz, Er, & Kurtaran, 2007). In some cases, customers who are delighted with a firm's service recovery efforts can become more loyal to the business than those who have not experienced a service failure (Brown, 2000; Hart, Heskett, & Sasser, 1990). On the other hand, failing to recover

from a service failure can aggravate customers' existing negative perceptions of the firm, since it is likely to be their most recent experience with the firm (Spreng, Harrell, & Mackkoy, 1995).

Service recovery efforts comprise actions taken by a firm and its employees to turn about the customer to a position of the customer's expectation. However, frontline service employees play an important role not only in service delivery but also during service recovery (Boshoff & Allen, 2000; Yoo et al., 2006). As they are normally the first port of call for a dissatisfied customer, effective service recoveries are in many cases those solved immediately by customer-contact staff (Zeithaml, Berry, & Parasuraman, 1996). Even though there is a particular paucity with regard to studies that have analyzed the potential impact of organizational variables on the ability of frontline employee to effectively recover from service failures (Boshoff & Allen, 2000; Babakus, Yavas, Karatepe, & Avci, 2003). While frontline employees are of paramount importance and significant role in the delivery of service quality and during service recovery (e.g., Boshoff & Allen, 2000; Hartline & Ferrell, 1996; Karatepe and Sokmen, 2006). Very little is known, however, about the factors that influence the service recovery performance of frontline employee (Boshoff & Allen, 2000; Babakus et al., 2003; Karatepe, 2006).

There were some organizational factors which can influence service recovery performance of frontline employee (Boshoff & Allen, 2000). Babakus et al. (2003) suggested that management commitment to service quality, as manifested by the frontline banks employees' appraisal of training, empowerment, and rewards, has significant effect on their perceptions of service recovery performance of frontline employee. Employee knowledge sharing also has an important bearing on performance and knowledge sharing occurs affect the performance (e.g., Cummings,

2004; Hsu, 2006; Hsu, Ju, Yen, & Chang, 2007; Kim & Lee, 2006; MacNeil, 2003, 2004; Rong, Ai, & Ren, 2007; Yang, 2007).

The results of some studies also indicated that perceived organizational support has been related to a variety of work-relevant outcomes (e.g., Armeli, Eisenberger, Fasolo, & Lynch, 1998; Bishop, Scott, Goldsby, & Cropanzano, 2003; Eisenberger, Cummings, Armeli, & Lynch, 1997). Prior researchers may be used the role of perceived organizational support as an independent variable (e.g., Coyle-Shapiro & Conway 2005; Chen, Aryee, & Lee, 2005; Eisenberger, Fasolo, & Davis-LaMastro, 1990; Fuller, Hester, Barnet, Frey, & Relyea, 2006; Hyonsong, White, & Prybutok, 2001; Jawahar & Hemmasi, 2006; Mankanjee, Hartzler, & Uys, 2006; Naumann, Bies, & Martin, 1995; Rhoades & Eisenberger, 2002; Shanock & Eisenberger, 2006), or a dependent variable (e.g., Coyle-Shapiro & Conway, 2005; Patrick & Lashinger, 2006; Valentine, Greller, & Richtermeyer, 2006), or a mediator (e.g., Burke, 2003; Loi, Ngo, & Foley, 2006; Rhoades, Eisenberger, & Armeli, 2001; Wayne, Shore, & Liden, 1997), or a moderator in the organizational context.

However, Chong et al. (2001) also empirically demonstrated that the use of perceived organizational support as a moderator rather than a mediator. Whereas Lee, Lee, and Kwon (2005) and some previous studies have examined empirically perceived organizational support as a moderating variable (e.g., Adebayo, 2005; Chong, White, & Prybutok, 2001; Foley, Ngo, & Lui, 2005; Lynch et al., 1999; Mahmud, Hall, & Swanberg, 2001; Malhotra, Heine, & Grover, 2001; Stewart, 1996; Stamper & Johlke, 2003; Shanock & Eisenberger, 2006). Therefore, this study also examined the role of perceived organizational support as a moderating variable.

Based on the background above, the management commitment to service quality, employee knowledge-sharing capabilities, perceived organizational support,

and service recovery performance of frontline employee are four important concepts in the human resource management field and until recently there has been very little, this study investigates the linkage between management commitment to service quality, employee knowledge sharing capabilities, perceived organizational support, and service recovery performance of frontline employee.

1.2 Research Problem

Since the year 2000, the Islamic banks development in Indonesia is phenomenal (Karim & Affif, 2005). Despite the phenomenal development of Indonesian Islamic banks, the main problem in human resources of the Indonesian Islamic Banking is still lack of good competencies in Islamic Banking and have a lower performance compared to employee in conventional banking (Harahap & Basri, 2004; Idawati, 2006). Yusuf's (2006) empirical study also demonstrated that Indonesian Islamic banks were perceived as having lower performance of service quality compared to Indonesian conventional banks. Consequently, employees of Indonesian Islamic Banking tend to have a lower performance in serving the customers which was never been expected by the customers.

Ilham (2007) stated that the employees of the Indonesian Islamic Banking were frequently unable to accurately explain the product information of the Indonesian Islamic Banking to their customers. This is due to the fact that most of the human resources in the Indonesian Islamic Banking still lack competency and experience in Islamic Banking operation (Idawati, 2005, 2006; Ilham, 2007; Sinoulan, 2007). As a result, this raises on a doubt in customers to use the products and services of the Indonesian Islamic Banking. Thus, despite the development of Islamic Banking in Indonesia has been spectacular, but still many problem facing in

the service quality development (Harahap & Basri, 2004; Idawati, 2005, 2006; Ilham, 2007; Sinoulan, 2007; Yusuf, 2006). Therefore, the development of Indonesian Islamic Banking must be supported by availability of high competencies human resources (Fadjrijah, 2007; Ilham, 2007; Sinoulan, 2007).

Despite, the Islamic Banks governed by Islamic law or *shariah* Islamiah that is differentiate with conventional bank, however, internationally Islamic Banks has spread across the whole universe and received wide acceptance by both Muslims and non-Muslims (Iqbal & Molyneux, 2005). Therefore, Islamic banking needs to be aware of service quality. This is based on the following reasoning: Firstly, nowadays, Islamic Bank has strong competition with conventional bank because they are faced with different customer expectation to receive high quality services that they serve (Abedniya & Zaeim, 2011). Secondly, customers often form their opinions on service quality (Masdek et al., 2011), therefore, Islamic banking should be emphasizing the quality of the service delivery. Thirdly, adapting service quality in Islamic banks has become important because of its apparent relationship to customer satisfaction (Zeithaml et al., 2009) and customer loyalty (Lovelock & Wirtz (2004). Fourthly, the more loyal a customer of a bank is the bigger his contribution to the bank's profits. Therefore, to increase customer loyalty, the bank has to develop innovative and creative in service recovery effort (Yusuf, 2006).

Yusuf (2006) suggested that service quality of Indonesian Islamic bank should be improved which focus on both pure *shariah* and service quality. Lin, Lin, and Lin (2007) also state that emphasis on service improvement, in particular service recovery strategies are important to companies in order to resolve quality problems. When a service failure occurs, the effective use of service recovery is very important in gaining customer satisfaction (Lin et al., 2007). Service recovery refers to steps

that are intended to identify and correct service failures or quality problems (Simons, 2004). While more analytical subsequent studies have shown a positive linkage between service recovery and customer satisfaction, loyalty, and future business (Miller, Craighead, & Karwan, 2000; Spreng, Harrell, & Mackoy, 1995). Therefore, service quality of the Indonesian Islamic banks needs to have service recovery, because the empirical evidence suggests that service recovery is a very effective way of enhancing service quality (Simons, 2004; Thwaites & Williams, 2006). This is in line with previous researchers, suggested that according to the service quality literature, the outcomes of service recovery are improved customer satisfaction and improved service quality perceptions leading to positive behavior intentions such as repeat purchases and loyalty (Boshoff, 1997; Johnston & Michel, 2008).

Service recovery performance involves actions taken by the service providers to respond to service failures (Gronroos, 2000; Johnston & Mehra, 2002). Previous research has shown that an effective service recovery strategy has multiple potential impacts, for examples, customer satisfaction, customer loyalty, and generate positive word-of-mouth communication (Zeithaml, Bitner, & Gremler, 2009). Babakus et al. (2003) stated that realizing the importance of successful recovery, service organizations seek solutions to service failures on several fronts. Because of their boundary-spanning roles, frontline employees are at the heart of recovery efforts (Bowen & Schneider, 1988; Bowen & Lawler, 1995).

Zeithaml and Bitner (1996) also argued that the lifeblood of a service organization is its employees, particularly frontline, customer contact employees, and most effective service recoveries are those solved immediately by frontline employee. Given the facts that service failures take place, frontline employees' efforts play critical role in successful service recovery. However, there is a particular

paucity with regard to studies that have analyzed the potential impact of organizational variables on the ability of frontline staff to effectively recover from service failures (Boshoff & Allen, 2000; Babakus et al., 2003).

Therefore, service quality of the Indonesian Islamic Banking can be improved by giving a comprehensive understanding about Islamic Banking and service quality to frontline employees of Indonesian Islamic Banking (Joyosumarto, 2008). Frontline employees are able to deliver adequate information to customers in order to create a better service quality. Nevertheless, successful service recovery performance of frontline employees also need organizational support. There is a considerable body of research on the Indonesian Islamic Banks in general. However, literature that specifically discusses service recovery performance in Indonesian Islamic Banks is limited. Thus this study is motivated to explore service recovery performance of frontline employees in Indonesian Islamic Banks due to the lack of studies on service recovery performance of frontline employees in Indonesian Islamic Banks.

A service recovery performance model was proposed and tested by Babakus et al. (2003) with data from frontline bank employees in Turkey. The empirical results suggested that management commitment to service quality, as manifested by frontline employee's appraisal of training, empowerment, and reward, has a significant effect on their perceptions of service recovery performance. The lack of management commitment is the main reason why many quality improvement efforts fail (Jenkins, 1992). Employees take their lead from management and, if they believe that managers are not fully committed to the goal of service excellence, they will not commit themselves to providing it (Boshoff & Allen, 2000). Therefore, frontline employees' perceptions of management commitment to service quality as manifested

by training, empowerment, and rewards are important to service recovery performance of frontline employee (Babakus et al., 2003).

According to Amin (2007), a banker in one of the Indonesian Islamic banks, employee knowledge sharing in Islamic Banking is very important, especially about business aspects. Employee knowledge sharing was implemented by employees of Indonesian Islamic Banking where Mr. A. Riawan Amin was the CEO and ran a successful Islamic Banking operation. He suggested that employee knowledge sharing could help the employees for success in sharing about knowledge and experiences with organizational support. Even though many previous researches (e.g., Hsu, 2006; Hsu et al., 2007; Kim & Lee, 2006; Yang, 2007) have shown that employee knowledge sharing is one of the relevant factor contributing to high levels of individual performance and has been significantly associated with job performance, however, several researchers also state that the relationship is still inconsistent (e.g., Connelly & Kelloway, 2003; Rong, et al., 2007).

Previous researchers used perceived organizational support as an independent variable, or a dependent variable, or a mediator, or a moderator in the organizational context. However, Chong et al. (2001) empirically demonstrated that the use of perceived organizational support as a moderator rather than a mediator. Lee, Lee, and Kwon (2005) and some previous studies also have examined empirically perceived organizational support as a moderating variable. Thus, previous researches indicate the role of perceived organizational support in the organizational context is still inconsistent. Hence, the current study will also examine the role of perceived organizational support as a moderating variable. Therefore, the problem statement in this study sought to address “Whether frontline employees’ perceptions of management commitment to service quality (as manifested by training,

empowerment, and rewards), employee knowledge-sharing capabilities, and perceived organizational support influence service recovery performance of frontline employee”.

1.3 Research Objectives

The objectives of this study were as follows:

1. To investigate the influence of frontline employees’ perceptions of management commitment to service quality (as manifested by training, empowerment, and rewards) on service recovery performance of frontline employee.
2. To investigate the influence of employee knowledge-sharing capabilities on service recovery performance of frontline employee.
3. To examine whether perceived organizational support has a moderating effect on the influence of frontline employees’ perceptions of management commitment to service quality (as manifested by training, empowerment, and rewards) on service recovery performance of frontline employee.
4. To examine whether perceived organizational support has a moderating effect on the influence of employee knowledge-sharing capabilities on service recovery performance of frontline employee.

1.4 Research Questions

This study attempted to answer the following research questions:

Q1: Does frontline employees’ perceptions of management commitment to service quality (as manifested by training, empowerment, and rewards) influence service recovery performance of frontline employee?

Q2: Does employee knowledge-sharing capabilities influence service recovery performance of frontline employee?

Q3: Does perceived organizational support moderate the influence of frontline employees' perceptions of management commitment to service quality (as manifested by training, empowerment, and rewards) on service recovery performance of frontline employee?

Q4: Does perceived organizational support moderate the influence of employee knowledge-sharing capabilities on service recovery performance of frontline employee?

1.5 Significance of the Study

This study was expected to contribute to both theoretical and practical contribution.

They were as follows:

1.5.1 Theoretical Contributions

From the theoretical contributions, the present study was significant for the following reasons:

First, this study contributes to the body of knowledge of human resource management by looking at organizational factors contributing to service recovery performance of frontline employee. In addition, the role of perceived organizational support in moderating the influence of management commitment to service quality and employee knowledge sharing capabilities on service recovery performance of frontline employee has never been researched before. This study hopefully may act as a way out of service failure toward successful service recovery performance of frontline employees.

Second, previous researches have not shown the potential influence of these four factors (frontline employees' perceptions of management commitment to service quality, employee knowledge-sharing capabilities, perceived organizational support, and service recovery performance of frontline employee) in an integrated way. Therefore, based on social exchange theory (Blau, 1964), the current study has shown the important of the influence of these four factors in organizational setting, particularly in a developing country.

Third, there is a very little the results of research in the field of human resource management in developing countries, especially from Indonesia with the fourth largest population in the world (Bennington & Habir, 2003; Idawati, 2005, 2006). Thus, this study will add value to the theory in the field of human resource management on commercial banks, especially on Islamic Banking, and could be provided an avenue for development of future research in related area which will further cover the limitations of this study.

1.5.2 Practical Contributions

In terms of practical contributions, findings from this study contribute as follows:

First, the frontline employees' perceptions of management commitment to service quality and employee knowledge-sharing capabilities approaches to human resource management are very important in private and public organizations, helping them to attract and identify the right person for a job position, performing succession planning, training analysis and other core human resources functions. Therefore, this study was expected to provide the executives the guideline in their work to solve any issue in improving the service quality of frontline employee.

Second, this study has also provided a better understanding on the influence of these factors (frontline employees' perceptions of management commitment to service quality, employee knowledge-sharing capabilities, and perceived organizational support) on service recovery performance of frontline employee as input to improve performance outcomes, especially for the service quality of frontline employee towards sustainable competitive advantage in business.

Third, the research on human resource management has been rare and limited, especially research on service recovery performance of frontline employee in Indonesian Islamic Banks. As a new system, the Islamic Banking in Indonesia needs human resources who have special characteristics, distinct from conventional banks, especially knowledge in *shariah*. Thus, this study offered a new input for decision makers in Indonesian Islamic Banking to properly arrange a policy for recruiting, selection, training and development the frontline employees.

1.6. Scope of the Study

The current study was limited only to subjects who currently work as full time employee, in particular the frontline employee (i.e., bank teller and customers-contact or customers service) in Indonesian Islamic Banks. The bank industry was viewed as an ideal environment to test the model in this study, due to its highly competitive nature, high levels of customer contact and relatively long-term relationship with customers (Boshoff & Allen, 2000).

1.7 Key Terms in the Study

Several key terms that used in this study are service recovery performance of frontline employee, management commitment to service quality, employee

knowledge-sharing capabilities, perceived organizational support, and Indonesian Islamic Banking, as follows:

1.7.1 Service Recovery Performance of Frontline Employee

In this study, service recovery performance of frontline employee is defined as frontline service employees' perceptions of their own abilities and actions to resolve a service failure to the satisfaction of the customer (Karatepe, 2006). Frontline employee refers to employee who working directly interacts with customers (Karatepe, 2006). The current study was limited only to subjects currently work as full time employee, in particular bank teller and customers-contact or customers service in Indonesian Islamic Banking.

Frontline employee plays a critical role not in only service delivery during the so-called service encounter but also during service recovery (Boshoff & Allen, 2000). From a consumer's point of view, the interaction with service employees defines the service encounter. Frontline employees play a crucial role in service delivery and building relationships with customers (Babakus et al., 2003; Karatepe & Sokmen, 2006; Karatepe & Kilic, 2007) due to their boundary-spanning roles (Bowen & Schneider, 1988).

1.7.2 Management Commitment to Service Quality

Parasuraman et al. (1985) proposed that service quality is a function of the differences between expectation and performance along the quality dimensions. provides its customers. Managing perceived service quality means that the firm has to match the expected service and perceived service to each other so that consumer satisfaction is achieved.

Based on previous researchers (e.g., Ashill et al., 2006; Boshoff & Allen, 2000; Babakus et al., 2003; Forrester, 2000; Hartline & Ferrell, 1996), the current study defines management commitment to service quality as the manager's affective desire to improve his or her unit's service quality, specifically from the frontline employees' perspective to achieve service excellence. Therefore, management commitment to service quality was conceptualized as frontline employees' perceptions of management commitment to service quality as manifested by training, empowerment, and rewards (Babakus et al., 2003). Hence, frontline employees' perceptions of management commitment to service quality, in this study here after referred to as management commitment to service quality.

This study uses training, empowerment, and rewards as dimensions of management commitment to service quality (Babakus et al., 2003). Training refers to a planned effort by a company to facilitate employees' learning of job related competencies (Noe, 2008). These competencies include knowledge, skills, or behaviors that are critical for successful their day-to-day activities and thus to influence job performance. Thus, training of frontline employees can to improve their capability to deal with varying customer needs for excellent service.

Empowerment refers to provides frontline employees with the responsibility and authority needed to act quickly without a long chain of command (Bowen & Lawler, 1992), and to provide frontline employees authority to correct customer problems when they occur (Boshoff & Allen, 2000). Essentially, empowerment is giving the frontline employee the power to act in the interest of serving customers better and thus to influence service recovery performance.

While rewards referred to employees' expectation that service excellence is rewarded (Boshoff & Allen, 2000). Rewards can be stock options, profit-sharing

plans, gain sharing, and other plans that tie employees' financial rewards to the organization's success (Bowen & Lawler, 1995). Indeed, empirical results from Boshoff and Allen (2000) showed that rewarding frontline staff for service excellence exerts a positive influence on their service recovery performance.

1.7.3 Employee Knowledge-Sharing Capabilities

In this study, employee knowledge-sharing capabilities are defined as the ability of employee to share their work-related experience, expertise, know-how, and contextual information with other employees through informal and formal interactions within or across teams or work units (Kim & Lee, 2006). Knowledge sharing could be done directly via communication or indirectly via some knowledge archive.

There are three major mechanisms for employee knowledge-sharing capabilities: (1) sharing knowledge in interactions among employees; (2) sharing knowledge with other employees in teams or groups; and (3) acquiring knowledge held by other divisions (Kim & Lee, 2006). The success of knowledge sharing occurs in quality of interaction between the employees, but emphasis issues related to the reluctance to share knowledge, and the willingness and ability to use knowledge of others (Mathuramaytha, 2012).

Employee knowledge-sharing capabilities comprise two dimensions, namely: (1) explicit knowledge-sharing capabilities; and (2) tacit knowledge-sharing capabilities (Kim & Lee, 2006). Explicit knowledge-sharing capabilities refer to sharing of knowledge that is codified and transferable in formal, systematic methods, and available in the form of files, such as rules, procedures, manuals, data bases, reports, and library collections.

While tacit knowledge-sharing capabilities refer to sharing of knowledge that is non-verbalizable, intuitive, and unarticulated. Tacit knowledge mainly exists in the minds of employees, materialized in the equipment in the enterprise organization system and forms of management and corporate culture that cannot be clearly demonstrated with systemic and coded language (Zhi-guo & Cui-jian, 2012). For example, the accumulated experiences, creativity, and skills that reside within individuals (Kim & Lee, 2006).

1.7.4 Perceived Organizational Support

Perceived organizational support (POS) is defined as an employee's perception concerning the extent to which the organization values their contribution and cares about their well-being (Eisenberger et al., 1990). Usually, employees develop opinions concerning the degree to which the organization values their contribution and shows an overriding concern for their well-being (Rhoades & Eisenberger, 2002; Shanock & Eisenberger, 2006).

As noted, prior researchers may be used the role of perceived organizational support as an independent variable (e.g., Coyle-Shapiro & Conway 2005; Chen, et al., 2005; Fuller, et al., 2006; Hyonsong, White, & Prybutok, 2001; Jawahar & Hemmasi, 2006; Mankanjee et al., 2006; Naumann et al., 1995; Rhoades & Eisenberger, 2002; Shanock & Eisenberger, 2006), or a dependent variable (e.g., Coyle-Shapiro & Conway, 2005; Patrick & Lashinger, 2006; Valentine et al., 2006), or a mediator (e.g., Burke, 2003; Loi et al., 2006; Rhoades et al., 2001; Wayne et al., 1997), or a moderator in the organizational context. This study uses perceived organizational support as a moderating variable, for at least four reasons, that is explained in research hypotheses section (Please see chapter two).

1.7.5 Indonesian Islamic Banking

Based on the Act of the Republic of Indonesia No. 7 of 1992 concerning banking as amended by the Act No. 10 of 1998, banks in Indonesia are categorized as: (1) Commercial banks (i.e., commercial banks not under Islamic principles as known conventional banks, and commercial banks under Islamic principles). The commercial banks have access to the payment system and offer a full range of banking products; and (2) Rural banks. Rural banks are extremely small sized banks compared to regular commercial banks. Rural banks can only be owned by Indonesian citizens, corporate or partnership that is 100% owned by Indonesia citizen. They could take deposits and distribute loans, but do not have access to the payments systems. Therefore, they are not allowed to offer checking or current accounts to the public (Ibrahim, 2003).

The development of modern Islamic banking in Indonesia was formally initiated in 1992. Based on those Acts above, Indonesia has recognized the existence of a dual banking system, that is a system where the conventional side by side with Islamic Banking system grow together to serve the economy (Ibrahim, 2003). In this study, Indonesian Islamic Banks referred to three types of Islamic Banking in Indonesia as mentioned above as follows: (1) Islamic Commercial Banks governed by Islamic law or *shariah* Islamiah. This one, in Indonesia is called Bank Umum Syariah; (2) Islamic Banking Units are the subsidiary operation units within conventional banks which implemented *shariah*-based principles in their business portfolio as well. This one, in Indonesia is called Islamic Business Unit or Unit Usaha Syariah (Central Bank of Indonesia, 2009); and (3) Islamic Rural Banks or *Shariah* People Credit Banks, in Indonesia is called Bank Pembiayaan Rakyat Syariah (BPRS) (Central Bank of Indonesia, 2009; Ibrahim, 2003).

1.8 Organization of the Thesis

Chapter 1 provides the introduction of this study including the background of the study, research problem, research objectives, research questions, significance of the study, scope of the study, key terms in the study, and organization of the thesis.

Chapter 2 provides a review of related literature regarding Indonesian Islamic Banking, previous studies of the study variables which are concepts and definitions of service, concepts and definitions of service recovery performance, conceptualization and factors influencing of service recovery performance of frontline employee. Concepts and definitions of service quality, concepts, definitions, and dimensions of management commitment to service quality, and management commitment to service quality and service recovery performance of frontline employee. It will be followed by concepts, definitions, and dimensions of employee knowledge-sharing capabilities, employee knowledge-sharing capabilities and service recovery performance of frontline employee, perceived organizational support, and gaps in the literature. Finally, the underlying theory, research conceptual framework, the hypotheses, and summary.

Chapter 3 describes the methodology used in this study, include: research design, source of data, population and sample size, data collection procedures, research instruments, pilot study, data analysis techniques, and summary.

Chapter 4 describes the data analysis and results of this study is led by response rate, profile of respondents, and test for non-response bias. This is followed by goodness of measure included factor analysis and reliability analysis, the modified conceptual framework of study, and restatement of hypotheses. Finally, descriptive statistics, correlation analysis, hypotheses testing and test of moderator

effects with control variables by using multiple regression analysis, summary results of hypotheses testing, and summary.

Chapter 5 provides the discussion and conclusion starting with the recapitulation of the present study's findings. Next, discussion on the influence of management commitment to service quality on service recovery performance of frontline employee, and the influence of employee knowledge-sharing capabilities on service recovery performance of frontline employee. Then, discussion on moderating effect of perceived organizational support on the influence of the independent variables on dependent variable, and the impact of control variables. Next, the implications of the present study both theoretical and practical implications. Lastly, overall conclusion of the present study will be provided after presenting the limitations of the present study and recommendations as well as suggestions for the future research.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter provides a review of related literature regarding the philosophy and principles of Islamic Banking, Indonesian Islamic Banking, previous studies of the study variables which are concepts and definitions of service, concepts and definitions of service recovery performance, conceptualization and factors influencing of service recovery performance of frontline employee. Concepts and definitions of service quality, concepts, definitions, and dimensions of management commitment to service quality, and management commitment to service quality and service recovery performance of frontline employee. It will be followed by concepts, definitions, and dimensions of employee knowledge-sharing capabilities, employee knowledge-sharing capabilities and service recovery performance of frontline employee, perceived organizational support, and gaps in the literature. Finally, the underlying theory, research conceptual framework, the hypotheses, and summary will be presented.

2.1 The Philosophy and Principles of Islamic Banking

Islamic Banking is a banking system operating based on Islamic law (*shari'ah*), known as *Fiqh al-Muamalat*, and its practical application through the development of Islamic economic, thus making Islamic Banking different to conventional banking system in several ways (Harahap & Basri, 2004; Ibrahim, 2003). Islamic economic philosophy inclusion Islamic Banking aims at eliminating interest and establishing distributive justice free from all sorts of exploitation. This basic philosophy seems to